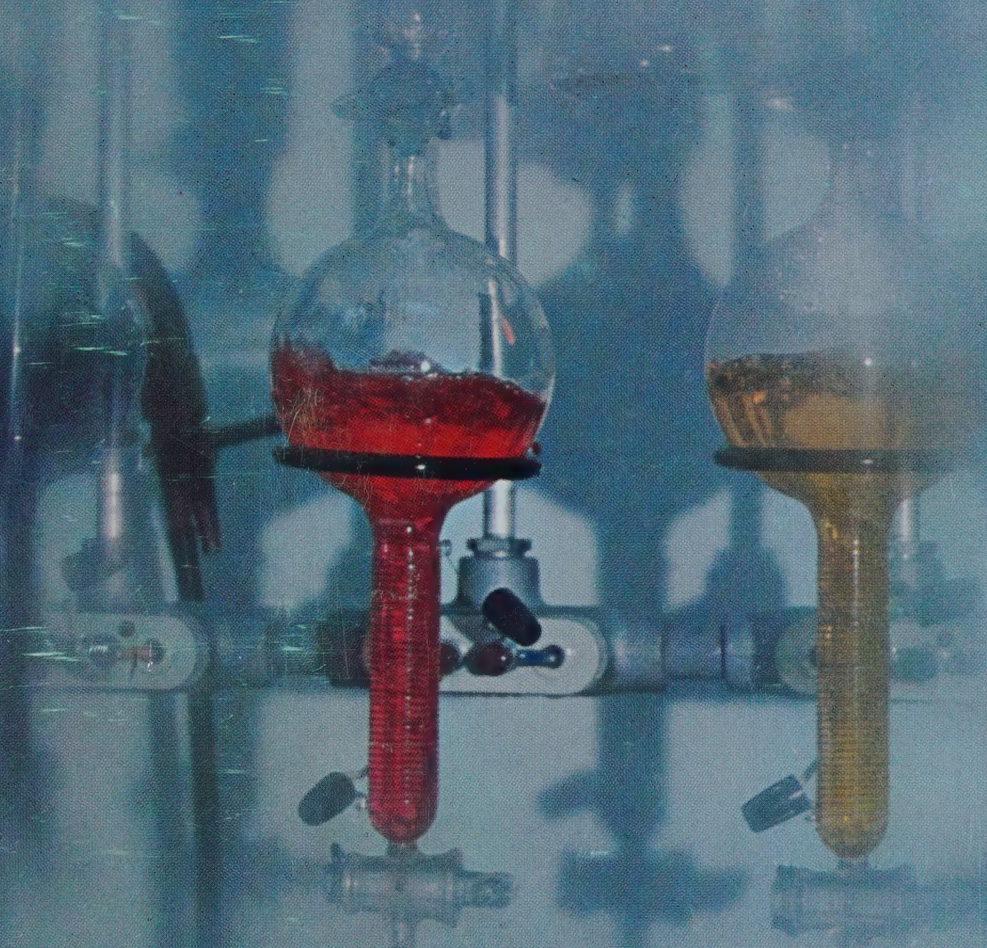


AR39



THE BRITISH AMERICAN OIL COMPANY LIMITED • 1964 ANNUAL REPORT



A Special General Meeting and the 58th Annual Meeting of Shareholders will be held in the Empress Room of the Park Plaza Hotel, Toronto, at 2.30 p.m., April 22, 1965. Shareholders of record as of March 26, 1965, will be entitled to notice of, and to vote at, these meetings. Notice of the meeting and a proxy form have already been mailed to shareholders.

### **Contents**

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## **THE BRITISH AMERICAN OIL COMPANY LIMITED**

Incorporated in 1909 under the laws of Canada

### **Front Cover:**

*A photographic abstract, inspired by B-A's new Research and Development Centre, suggests the fascinating and rewarding world of research.*

# HIGHLIGHTS OF OPERATIONS

MAY 12 1965

Financial	1964	1963	Per cent increase (decrease)
Gross revenue	\$606,578,000	\$554,805,000	9.3
Earnings—including special items	\$ 40,761,000	\$ 34,152,000	19.4
—excluding special items	\$ 36,709,000	\$ 34,152,000	7.5
Earnings—per share—including special items	\$1.87	\$1.57	
—excluding special items	\$1.68	\$1.57	
Dividends—total	\$ 21,819,000	\$ 13,482,000	61.8
—rate per common share	\$1.00	\$1.00	
Expenditures—properties, plants and equipment	\$ 51,396,000	\$ 60,729,000	(15.4)
Depreciation, depletion, amortization	\$ 46,488,000	\$ 41,928,000	10.9
Total assets	\$760,009,000	\$740,470,000	2.6
Long term debt	\$ 83,749,000	\$ 89,695,000	(6.6)
Shareholders' equity—total	\$530,870,000	\$512,297,000	3.6
—per share	\$24.33	\$23.48	
	Shares		
Shares issued—common	13,486,245	13,482,195	
—restricted common	8,335,648	8,335,648	
—total	21,821,893	21,817,843	
<b>Operating</b>	Thousands of cubic feet		
Net natural gas produced and sold	119,475,000	114,110,000	4.7
	Barrels		
Net crude oil and natural gas liquids produced	31,211,000	29,930,000	4.3
Crude oil processed	55,899,000	54,688,000	2.2
Refined products sold	59,245,000	54,568,000	8.6
	Pounds		
Petrochemical sales	1,012,248,000	630,294,000	60.6

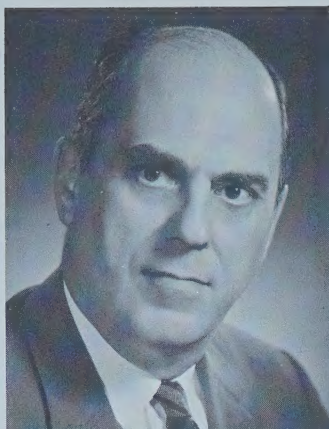
## Notes

Per share calculations are based on the total common and restricted common shares outstanding at each year-end.

Dividends for 1964 include the provision of \$8,335,648 for a dividend on restricted common shares, which was declared on February 17, 1965, and paid on March 1, 1965.



# DIRECTORS



C. D. Shepard, Chairman of the Board,  
The British American Oil Company  
Limited, Toronto, Ontario



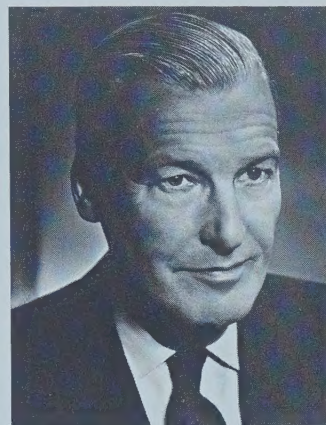
Charles Hay, President,  
The British American Oil Company  
Limited, Toronto, Ontario



F. W. Bruce, President,  
Aluminum Company of Canada, Limited,  
Montreal, Quebec



D. L. Campbell, Vice-President,  
The British American Oil Company  
Limited, Toronto, Ontario



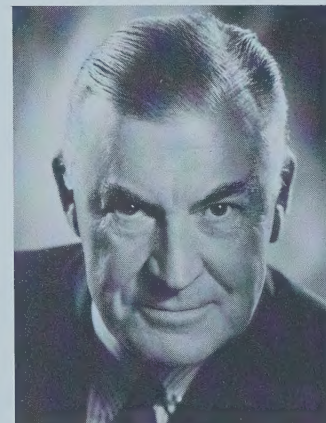
J. A. Fuller, Chairman of the Board,  
Shawinigan Chemicals Limited,  
Montreal, Quebec



J. R. Gordon, President,  
The International Nickel Company of  
Canada, Limited, New York, N.Y.



R. A. Laidlaw, Honorary Chairman,  
National Trust Company Limited,  
Toronto, Ontario



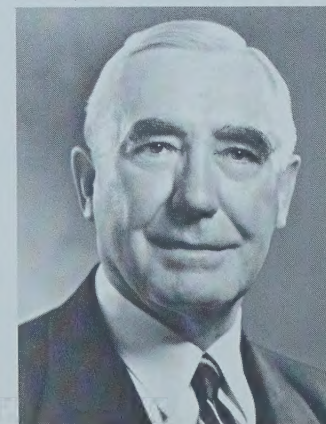
Beverley Matthews, Q.C., Partner,  
McCarthy & McCarthy, Barristers,  
Toronto, Ontario



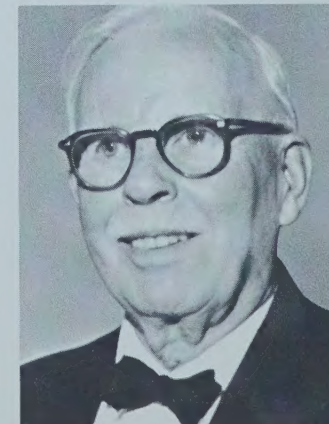
V. W. T. Scully, President,  
The Steel Company of Canada, Limited,  
Hamilton, Ontario



Hon. C. Wallace, President,  
Burrard Dry Dock Company Limited,  
Vancouver, British Columbia



Director Emeritus  
L. J. Belnap, Honorary Chairman,  
Consolidated Paper Corporation Limited,  
Montreal, Quebec



Director Emeritus  
C. L. Suhr,  
Oil City, Pennsylvania



# THE BRITISH AMERICAN OIL COMPANY LIMITED

## DIRECTORS

- ✓ C. D. Shepard, Toronto
- ✓ Charles Hay, Toronto
- ✓ F. W. Bruce, Montreal
- ✓ D. L. Campbell, Toronto
- ✓ J. A. Fuller, Montréal — *Brown*
- ✓ J. R. Gordon, New York
- ✓ R. A. Laidlaw, Toronto
- ✓ Beverley Matthews, Q.C., Toronto
- ✓ V. W. T. Scully, Hamilton
- ✓ Hon. C. Wallace, Vancouver — *Flourde*

## DIRECTORS EMERITUS

- L. J. Belnap, Montreal
- C. L. Suhr, Oil City, Pennsylvania

## OFFICERS

- Charles Hay, President
- C. D. Shepard, Chairman of the Board
- L. P. Blaser, Vice-President
- D. L. Campbell, Vice-President
- E. J. Gallagher, Vice-President
- J. W. Morgan, Vice-President
- L. R. Woolsey, Vice-President
- D. S. Lyall, Treasurer
- G. W. K. Macdonald, Q.C., Secretary
- J. M. Turnbull, Comptroller

## HEAD OFFICE

British American Oil Building  
800 Bay Street, Toronto, Ontario

## MARKETING DIVISION OFFICES

Halifax, Nova Scotia; Montreal, Quebec;  
Toronto, Ontario; Winnipeg, Manitoba;  
Calgary, Alberta; Vancouver, British  
Columbia

## DATA CENTRES

Montreal, Quebec; Toronto, Ontario;  
Calgary, Alberta

RESEARCH AND DEVELOPMENT CENTRE  
Sheridan Park, Ontario

## PRODUCTION & PIPE LINE OFFICES

Calgary, Alberta—Headquarters of:  
Canadian Production  
Britamoil Pipe Line Company Limited  
B-A Saskatchewan Pipe Line Limited  
Saskatoon Pipe Line Company Limited

## GAS PLANTS

Pincher Creek, Nevis, Gilby, Rimbey  
and Turner Valley, Alberta

## REFINERIES

Montreal East, Quebec; Clarkson,  
Ontario; Brandon, Manitoba; Moose  
Jaw and Saskatoon, Saskatchewan;  
Calgary and Edmonton, Alberta; Kam-  
loops and Port Moody, British Columbia

## REGISTRAR

Eastern & Chartered Trust Company,  
Toronto

## TRANSFER AGENTS

Eastern & Chartered Trust Company—  
Montreal, Toronto  
National Trust Company Limited—  
Winnipeg, Edmonton, Vancouver  
and by its agent  
Canadian Imperial Bank of Commerce—

Halifax, Saint John, N.B., Regina  
Registrar and Transfer Company—  
New York

## Principal Affiliates

THE BRITISH-AMERICAN OIL PRODUCING  
COMPANY

and The Toronto Pipe Line Company  
(100 per cent interest)

A crude oil and natural gas producing  
company operating in the United  
States.

Head Office: Dallas, Texas

President: O. I. Torkelsen

## ROYALITE OIL COMPANY, LIMITED

(97.6 per cent interest)

A marketer of petroleum products in  
Western Canada, combining the oper-  
ations of Purity 99 Oil Ltd. and Anglo-  
Canadian Oils Limited.

Head Office: Calgary, Alberta

President: J. L. Valens

## SHAWINIGAN CHEMICALS LIMITED

(66 $\frac{2}{3}$  per cent interest)

An industrial chemical organization  
with plants at Shawinigan, St. Maurice,  
Ste. Therese, Montreal East and Varen-  
nes, Quebec. Products are marketed  
on a world-wide basis.

Head Office: Montreal, Quebec

President: H. S. Sutherland

## SUPERIOR PROPANE LIMITED

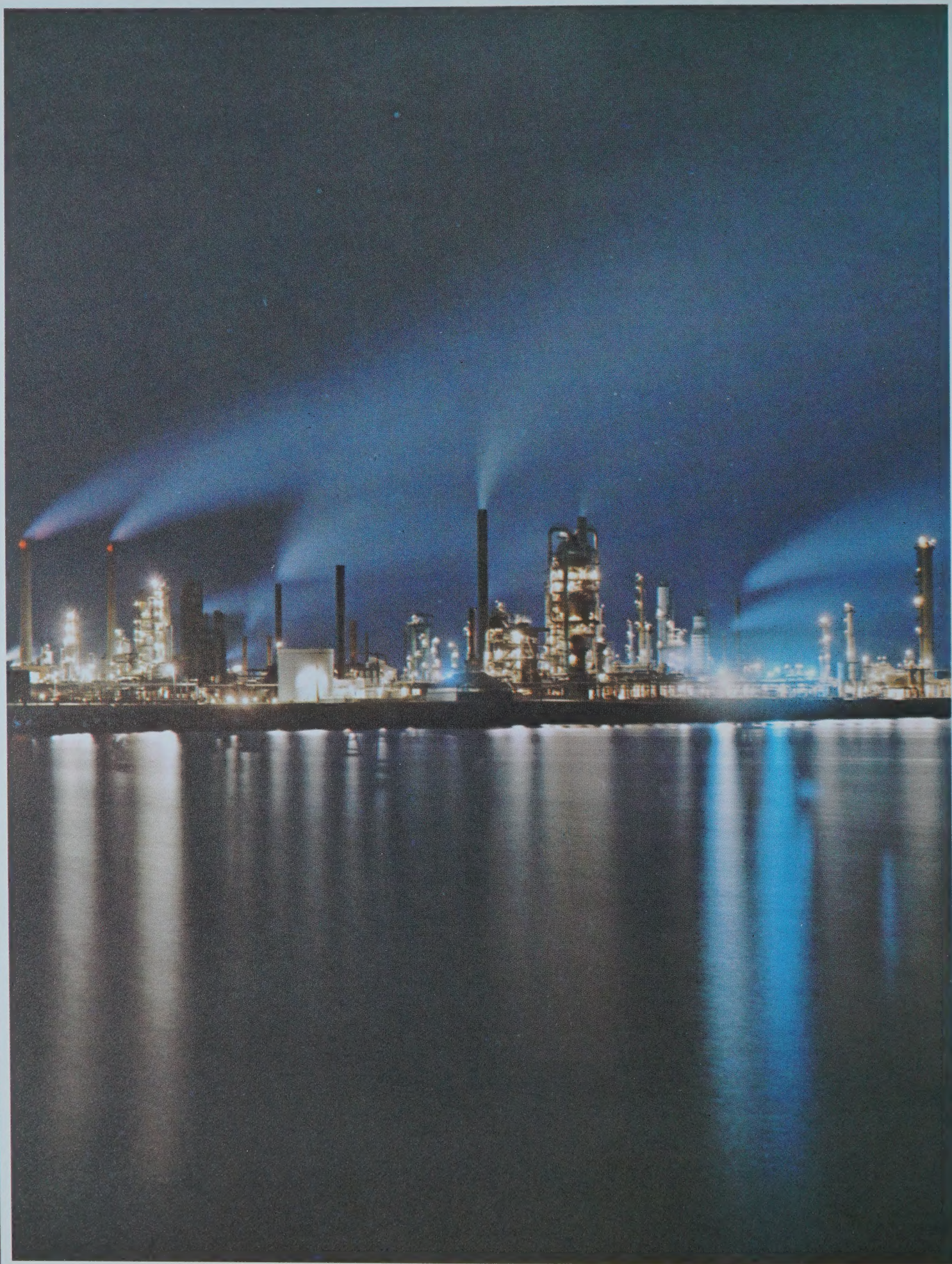
(100 per cent interest)

A distributor of propane in Central  
and Eastern Canada.

Head Office: Toronto, Ontario

President: R. G. Samworth







*Towering process units of B-A's largest refinery at Clarkson, Ontario, are reflected in the dark waters of Lake Ontario. The Company has assumed operation of three additional refineries, making a total of nine refineries located across Canada.*

The year 1964 was one of the most prosperous on record for the Canadian economy, the petroleum industry and British American Oil. Reflecting volume increases in all areas of British American's activities, earnings were at the highest level in the Company's history, even before including special items of a non-recurring nature.

Total consolidated net earnings for 1964 amounted to \$40.8 million—of which \$4.1 million represented special non-recurring items and \$36.7 million represented normal earnings — compared with \$34.2 million reported for 1963. Expressed on a per-share basis, earnings for the year amounted to \$1.87, compared with \$1.57 in 1963. Of the increase of 30¢ per share, 19¢ arose from the special items referred to previously.

With total earnings for the year exceeding \$35 million and the combined earnings of 1963 and 1964 exceeding \$69 million, the dividend limitations imposed on the 8,335,648 restricted common shares issued in 1956 no longer apply, and as explained in note 6 to the financial statements, these shares now rank equally in all respects with the Company's ordinary common shares.

The financial and operating results for the year are recorded and commented upon in detail later in this report.

The Canadian economy maintained its momentum of the past three years, and the duration of the current expansion soon will have surpassed all previous records. Reflecting a high level of activity in all sectors, 1964 Gross National Product, expressed in constant dollars, increased approximately six per cent over 1963.

During the past year more Canadians have been employed, and have earned and spent more money than ever before. The most significant economic feature of 1964 was the outstanding performance of Canadian exports, presently estimated to total \$8.1 billion, compared with \$7 billion in 1963. Excluding substantial wheat sales in both years, the export advance was nearly \$1 billion.

The petroleum industry, one of the major components of the Canadian economy, contributed to and shared in this growth. A year of expansion in all segments, 1964 set new records in the production of crude oil, natural gas, gas liquids and sulphur; in the sale of these resources at home and abroad; in manufacturing and transportation; and in

the sale of refined petroleum products, chemical feedstocks and chemicals to domestic and export markets.

Production of crude oil and natural gas liquids reached the National Oil Policy target of 850,000 barrels per day, a gain of eight per cent, or 62,000 barrels daily, over 1963. The increase was almost equally divided between export and domestic markets.

The government has set no specific production target for 1965. We believe this is a sound approach, since supply patterns have been based on the original aims of the National Oil Policy, and further increases in production will now be more in line with natural market growth in areas already served by Canadian crude oil and natural gas liquids, rather than by extension of existing markets.

Although problems are bound to arise from time to time, we are confident that the understanding and cooperation between government and industry, which has been so effective in making a success of the Policy since its inception, will overcome any difficulties.

Natural gas sales, although not matching the spectacular growth rates of recent years, continued to increase substantially. Sales reached a level in excess of 2.5 billion cubic feet per day in 1964, surpassing the previous year's figure by ten per cent.

Gains made during the past year are attributable to expanded markets both in Canada and the United States, up ten per cent and nearly nine per cent respectively. While demand for gas in Canada will continue to grow at a high rate, exports to the U.S. will grow only marginally under present permits. However, it is significant that the industry is taking steps to prepare for further expansion. Already the province of Alberta has authorized the movement of additional quantities of natural gas to Eastern Canada and U.S. markets. Providing all regulatory bodies approve, export of further volumes to the U.S. will commence by 1967.

The year was good also for natural gas liquids and sulphur—products associated with natural gas. With adequate supplies assured, the market outlook for propane is favorable. Other natural gas liquids have found ready markets at refineries in Canada and the U.S.

An impressive development has been the rise in sulphur sales—from 560,000 long tons in 1962 to 1½ million long tons in 1964. For the first time last year, sales exceeded production, and a furth-



er draw-down of sulphur inventories is expected in 1965. Coincidental with the substantial demand growth was the firming of sulphur prices.

Through its participation in Cansulex Limited, Canadian Helium Limited and Shawinigan Chemicals Limited, B-A has a growing interest in foreign markets in the sale of sulphur, helium and chemical products respectively. These activities reflect the broadening scope of the Company's interests, which over the years will give added security to shareholder investment.

The demand for petroleum products in Canada in 1964 was up seven per cent. Refinery operations kept pace with market demand and operated at about 90 per cent of rated capacity.

Exploration activity was stepped up considerably during 1964 and continues at a high level. A further increase in the level of exploration activity will be required to find the reserves needed to support the demand for Canadian oil and gas, which, in turn, will require a substantial increase in expenditures.

Funds available from Canadian sources will not alone be sufficient to meet the future capital requirements of the Canadian petroleum industry. As in the past, the industry will have to look to sources outside Canada to sustain an adequate exploration program. To attract the necessary capital, Canada's future investment climate and income tax structure must be competitive with those of other oil-producing countries. The necessity of having a tax structure which will attract capital investment was stressed by B-A before the federal government's Royal Commission on Taxation, known as the Carter Commission.

Exploratory activity has been given some encouragement by changes in provincial government regulations. Saskatchewan has granted royalty-free production until 1970 for certain deep wells, and also has instituted a change designed to step up exploration and production of natural gas. Alberta has approved new regulations for prorationing, which will not only encourage exploratory drilling but will also increase production for companies owning properties with large reserves per acre. The full effect of these regulations will not be apparent immediately, since the changes in allowables are to be implemented gradually between 1965 and 1969. British American will benefit from the new prorationing system through increased production from its reserves in the more prolific fields.

As the largest single holder of natural

gas reserves, B-A is in an excellent position to retain its share in the future expansion of natural gas and associated products.

The new Research and Development Centre at Sheridan Park, Ontario, officially opened in September, is in full operation. It is anticipated that the activities of the Centre will contribute to higher corporate earnings by the development of new knowledge; new products and processes; and the optimization of existing processes by scientific problem-solving.

In Western Canada, recent agreements between B-A and its affiliated companies—Royalite Oil Company, Limited, Anglo-Canadian Oils Limited, Purity 99 Oil Ltd.—will result in improved efficiency in the areas of production, manufacturing, supply and distribution, and in the creation of a new marketing entity under the Royalite name.

Indications are that 1965 will be a year of further expansion in the Canadian petroleum industry. The sound base established by B-A in all areas of operations encourages optimism for the future.

At the Annual Meeting of Shareholders on April 23, 1964, shareholders approved a reduction in the number on the Board of Directors from 14 to 12.

Three directors retired: L. J. Belnap, Chairman of the Board of Consolidated Paper Corporation Limited and a B-A director for over 22 years, resigned and was elected a director emeritus in appreciation of his "sound judgment, business skill and outstanding ability"; W. A. Wecker, formerly President of General Motors of Canada Limited and a director of B-A since 1952, resigned because of ill health; H. T. O'Neill, a director since 1956, resigned following his retirement as a Vice-President of the Company under B-A's regular retirement policy.

E. D. Loughney, formerly President of British American, resigned on September 1 to accept a position as a Senior Vice-President of Gulf Oil Corporation. Robert E. Kepke, formerly President of The British-American Oil Producing Company, resigned on October 1 to accept the appointment of President of Gulf Refining Company, a subsidiary of Gulf Oil Corporation.

New directors elected at the Annual Meeting on April 23, 1964, were Charles Hay, then President of Royalite Oil Company, Limited, and V. W. T. Scully, President of The Steel Company of Canada, Limited.

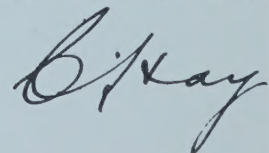
Several important executive changes have taken place since last year's report. Charles Hay was appointed President of British American, succeeding E. D. Loughney; C. D. Shepard, formerly Vice-President and General Counsel, was appointed Chairman of the Board; O. I. Torkelsen, formerly Vice-President, was appointed President of The British-American Oil Producing Company; E. J. Gallagher, formerly General Manager of Production, was appointed a Vice-President; D. S. Lyall, formerly Manager of Marketing Operations and Services, was appointed Treasurer; D. L. Campbell, Vice-President, was appointed President of the British American Research and Development Company, a new division of B-A.

Our Company derives its strength and ultimate success from the talents of the people who make up British American. Over the past few months we have been privileged to meet personally many hundreds of men and women in B-A and its affiliated companies throughout Canada and the United States performing a wide range of jobs. B-A is indeed fortunate in having a team of skilled employees whose loyalty and initiative are the backbone of our Company's progress. To them we extend our heartiest thanks for the courtesies extended to us during our travels and for their industry and contribution to British American's success in 1964.

We would also like to express warm appreciation to our shareholders whose interest and support are not only encouraging but vital to the future of British American.



Chairman of the Board.



President.

Toronto, Ontario, March 25, 1965.



The British American Oil Company Limited and subsidiary companies

# STATEMENTS OF CONSOLIDATED EARNINGS

for the year ended December 31, 1964

(with comparative figures for 1963)

	Earnings	1964	1963
<b>REVENUES</b>			
Gross sales and other operating revenues . . . . .		\$595,371,000	\$548,905,000
Less gasoline and fuel taxes . . . . .		95,718,000	88,289,000
Net sales and other operating revenues . . . . .		499,653,000	460,616,000
Dividends, interest and other sundry income . . . . .		6,230,000	5,900,000
		<u>505,883,000</u>	<u>466,516,000</u>
<b>DEDUCTIONS</b>			
Purchased crude oil, products and merchandise . . . . .		211,723,000	195,256,000
Operating, selling and administrative expenses . . . . .		165,268,000	155,062,000
Taxes on income (note 2) . . . . .		9,558,000	8,259,000
Other taxes . . . . .		30,589,000	26,939,000
Depreciation, depletion and amortization. . . . .		46,488,000	41,928,000
Interest on long term debt . . . . .		4,564,000	4,621,000
Income applicable to minority interests in subsidiaries . . .		984,000	299,000
		<u>469,174,000</u>	<u>432,364,000</u>
<b>EARNINGS FOR THE YEAR BEFORE SPECIAL ITEMS. . . . .</b>		<b>36,709,000</b>	<b>34,152,000</b>
<b>SPECIAL ITEMS</b>			
Gain on disposal of certain investments and capital assets. .		4,977,000	—
Provision for prior years' vacation expense less related income tax credits (\$723,000) . . . . .		(925,000)	—
<b>EARNINGS FOR THE YEAR AND SPECIAL ITEMS . . . . .</b>		<b>\$ 40,761,000</b>	<b>\$ 34,152,000</b>

## Retained earnings

Balance beginning of the year . . . . .	\$263,223,000	\$244,060,000
Earnings for the year and special items. . . . .	40,761,000	34,152,000
	<u>303,984,000</u>	<u>278,212,000</u>
Deduct:		
Adjustment under "Pooling of interests" accounting treatment re additional Royalite Oil Company, Limited shares purchased for cash . . . . .	495,000	1,507,000
Dividends on common shares. . . . .	13,483,000	13,482,000
Provision for dividend on restricted common shares (note 6) .	8,336,000	—
Balance end of the year. . . . .	<u>\$281,670,000</u>	<u>\$263,223,000</u>



**CONSOLIDATED**December  
(with comparative)

<b>Assets</b>	<b>1964</b>	<b>1963</b>
<b>CURRENT</b>		
Cash . . . . .	\$ 8,787,000	\$ 6,489,000
Marketable securities, at cost (approximates market value) . . . . .	17,693,000	16,608,000
Accounts receivable . . . . .	101,350,000	89,090,000
Inventories (note 3)		
Crude oil, products and merchandise . . .	79,104,000	81,764,000
Materials and supplies . . . . .	6,865,000	6,964,000
Total current assets . . . . .	213,799,000	200,915,000
<b>INVESTMENTS AND LONG TERM RECEIVABLES</b>		
Associated and other companies, at cost . .	13,451,000	15,071,000
Deposits, sundry investments, and long term receivables . . . . .	13,916,000	12,215,000
	27,367,000	27,286,000
<b>PROPERTIES, PLANTS AND EQUIPMENT</b> (note 4) . . . . .	497,424,000	491,132,000
<b>PREPAID AND DEFERRED CHARGES</b>		
Prepaid expenses . . . . .	5,468,000	6,793,000
Discount and redemption premium on long term debt . . . . .	1,099,000	1,234,000
	6,567,000	8,027,000
<b>EXCESS OF COST OF INVESTMENTS IN SUBSIDIARIES over values assigned to their tangible assets, less amortization .</b>	14,852,000	13,110,000
	<u>\$760,009,000</u>	<u>\$740,470,000</u>



limited and subsidiary companies

## BALANCE SHEET

1, 1964  
(figures for 1963)

Liabilities	1964	1963
CURRENT		
Accounts payable and accrued liabilities . .	\$ 82,077,000	\$ 86,091,000
Income and other taxes payable . . . . .	21,652,000	18,359,000
Long term debt instalments due within one year . . . . .	4,815,000	4,829,000
Dividends payable . . . . .	3,371,000	3,370,000
Provision for dividend on restricted common shares (note 6) . . . . .	8,336,000	—
Total current liabilities . . . . .	120,251,000	112,649,000
LONG TERM DEBT (note 5) . . . . .	83,749,000	89,695,000
MINORITY INTERESTS IN SUBSIDIARIES		
Preferred shares . . . . .	4,101,000	5,169,000
Common shares . . . . .	21,038,000	20,660,000
	25,139,000	25,829,000
Total liabilities. . . . .	229,139,000	228,173,000

### Shareholders' equity

Capital stock (note 6)		
Common shares and restricted common shares . . . . .	249,200,000	249,074,000
Retained earnings . . . . .	281,670,000	263,223,000
Total shareholders' equity . . . . .	530,870,000	512,297,000
	<u>\$760,009,000</u>	<u>\$740,470,000</u>

On behalf of the Board:

C. D. Shepard, Director

Beverley Matthews, Director



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1964

## 1. Principles of consolidation

The accounts of all subsidiary companies have been included in the consolidation. U.S. dollar balances have been translated to Canadian dollars as follows: investments in properties, plants and equipment and shares of associated and other companies at rates current at date of acquisition; all other assets and liabilities at rates current at the end of the year; earnings at rates current throughout the period, except for charges for depreciation, depletion and amortization which are on the basis of the Canadian dollar value of the related assets.

## 2. Income taxes

(a) Exploration and development expenditures, to the extent that they are allowable deductions for tax purposes, are claimed in the year in which they are incurred or as soon thereafter as possible, regardless of the treatment followed in the accounts.

(b) For Canadian income tax purposes the companies claim the maximum capital cost allowances including any accelerated allowance rather than the depreciation charged in the accounts. In 1964 and 1963, such allowances exceeded the depreciation charged in the accounts resulting in a reduction in income taxes of \$2,300,000 in 1964 and \$2,200,000 in 1963.

## 3. Inventories

Inventories of crude oil, products and merchandise are valued generally at the lower of average cost applied on the "first-in, first-out" basis or market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower depending on the condition of the items.

## 4. Properties, plants and equipment

	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment 1964	Net investment 1963
Production . . . . .	\$451,236,000	\$198,691,000	\$252,545,000	\$248,000,000
Transportation . . . . .	20,561,000	10,962,000	9,599,000	11,050,000
Refining and petrochemicals. . . . .	279,243,000	156,092,000	123,151,000	129,146,000
Marketing . . . . .	171,902,000	66,408,000	105,494,000	98,195,000
Other. . . . .	10,621,000	3,986,000	6,635,000	4,741,000
	<u>\$933,563,000</u>	<u>\$436,139,000</u>	<u>\$497,424,000</u>	<u>\$491,132,000</u>

Policies governing depreciation, depletion and amortization are as follows:

### (a) Exploration and development costs—

The companies follow the practice of charging to expense, as incurred, the cost of all dry holes and all exploration expenditures except the initial acquisition cost of oil and gas properties. These latter costs together with the costs of successful wells are capitalized and charged against earnings on a unit-of-production or other amortization basis.

### (b) Depreciation and amortization—

Charges are made against earnings for depreciation and amortization of investment in plants and equipment based on engineering reviews of the remaining service lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

## 5. Long term debt

	Maturity	1964	1963
The British American Oil Company Limited—			
2 $\frac{7}{8}$ % Serial Debentures due \$1,200,000 per annum . . . . .	1965-1966	\$ 2,400,000	\$ 3,600,000
3 $\frac{1}{2}$ % Debentures, 1954 issue			
—due \$500,000 per annum . . . . .	1965-1966	1,000,000	1,500,000
—sinking fund . . . . .	1974	12,912,000	12,912,000
5 $\frac{1}{8}$ % Debentures Series A . . . . .	1977	17,600,000	18,400,000
5 $\frac{3}{4}$ % Debentures Series B . . . . .	1982	9,650,000	10,000,000
5 $\frac{1}{4}$ % Debentures Series C (\$20,000,000 U.S.). . . . .	1982	20,918,000	21,622,000
		<u>64,480,000</u>	<u>68,034,000</u>
Royalite Oil Company, Limited—			
4 $\frac{1}{4}$ % to 5% Debentures and Bonds . . .	1965-1975	16,610,000	18,170,000



Shawinigan Chemicals Limited—			
4¼% Sinking Fund Debentures . . . . .	1971	3,350,000	3,700,000
Superior Propane Limited—			
4% to 6¾% Debentures . . . . .	1965-1980	2,774,000	2,942,000
Other long term obligations of	Varying		
subsidiary companies . . . . .	dates	1,350,000	1,678,000
		88,564,000	94,524,000
Less instalments due within one year			
included in current liabilities . . . . .		4,815,000	4,829,000
		<u>\$ 83,749,000</u>	<u>\$ 89,695,000</u>

## 6. Capital stock

	Shares	1964	1963
Authorized:			
Common shares without nominal or			
par value . . . . .	25,000,000		
Restricted common shares without			
nominal or par value . . . . .	9,000,000		
Issued:			
Common shares—1964. . . . .	13,486,245	\$193,722,000	
—1963. . . . .	13,482,195		\$193,596,000
Restricted common shares. . . . .	8,335,648	55,478,000	55,478,000
		<u>\$249,200,000</u>	<u>\$249,074,000</u>

### (a) Restricted common shares:

The restrictions attached to these shares provide that the holder thereof is not entitled to receive any dividend (other than stock dividends) except in a year in which in their annual report to the Shareholders the auditors of the Company report without qualification that the companies' consolidated net profits after taxes on income for the preceding fiscal year were greater than \$35,000,000. Upon the auditors so reporting, each restricted common share shall entitle the holder to receive, when declared by the Board of Directors of the Company, a dividend not greater than the dividends which were paid on each common share in such preceding fiscal year.

Notwithstanding the foregoing, each restricted common share shall cease to be subject to the restriction on dividends and thereafter shall rank equally with each common share in all respects and shall, at the option of the holder thereof, be converted into a common share upon the happening of either of the following:

- (1) when the total of the consolidated net profits after taxes on income reported upon without qualification by the auditors of the Company for two successive fiscal years of the Company amounts in the aggregate to not less than \$69,000,000, or;
- (2) on the expiration of ten years from January 1, 1956.

As the consolidated net profits after taxes on income for 1964 were greater than \$35,000,000, provision has been made in the accompanying financial statements at December 31, 1964 for a dividend of \$1.00 per share on each of the 8,335,648 restricted common shares outstanding. This is equal to the dividends paid on each common share in 1964.

Further, as the total of the consolidated net profits after taxes on income for 1963 and 1964 exceeded \$69,000,000, effective February 12, 1965, (the date of the attached report of the Company's auditors), each restricted common share shall cease to be subject to the restriction on dividends and thereafter shall rank equally with each common share in all respects and shall at the option of the holder thereof be converted into a common share of the Company.

### (b) Stock option plan:

The Company's Incentive Stock Option Plan provides for the granting of options to employees to purchase common shares of the Company at the market price on the day on which the options are granted. During 1964, options on 4,050 shares were exercised for a cash consideration of \$126,000, options on 6,000 shares expired, and no options were granted. At December 31, 1964 options on 210,075 shares were outstanding.

*\*A dividend aggregating \$8,335,648, representing \$1.00 per restricted common share, was declared on February 17, 1965, and paid on March 1, 1965. On March 8, 1965, these shares were converted to common shares of the Company at the request of the holder and in accordance with the terms attached thereto.*



## 7. Commitments and contingent liabilities

The companies have long term (three years and over) leases for real property and charters for tankers with approximate rentals payable in 1965 of \$16,640,000. Rental income from properties sub-leased to others is estimated at \$3,750,000 for 1965. Under certain of these leases the Company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. Such advances will aggregate approximately \$4,040,000 during the next five years of which \$696,000 will be payable in 1965.

The companies were contingently liable for guarantees of bonds of a pipe line company and of mortgages payable by owners of service stations and others, aggregating \$26,676,000. The management of the Company is of the opinion no losses of any consequence will result from these guarantees.

The companies have commitments in the ordinary course of business for the acquisition or construction of fixed assets and for the purchase of materials, supplies, investments, and services which are not significant in relation to the net assets of the companies.

## 8. Remuneration and fees

In arriving at earnings for the year the following charges were deducted:

Fees to directors of the Company exclusive of those holding	
salaried employment . . . . .	\$ 23,000
Remuneration to officers of the Company including directors	
holding salaried employment, and legal fees . . . . .	778,000

## 9. 1963 Comparative figures

In the accompanying balance sheet certain regroupings in the 1963 figures for current and long term receivables and accounts payable have been made for comparative purposes.

*Clarkson, Gordon & Co.*

*Chartered Accountants*

*Toronto 1*  
CANADA

### AUDITORS' REPORT

To the Shareholders of  
The British American Oil Company Limited:

We have examined the consolidated balance sheet of The British American Oil Company Limited and subsidiary companies as at December 31, 1964 and the statements of consolidated earnings for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain of the subsidiary companies, which statements were examined by other independent public accountants whose reports thereon have been furnished to us.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies and the aforementioned reports of other independent public accountants, the accompanying consolidated balance sheet and statements of consolidated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of The British American Oil Company Limited and subsidiary companies as at December 31, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied in all material respects on a basis consistent with that of the preceding year.

With reference to the terms and conditions attached to the restricted common shares (as summarized in note 6 to the consolidated financial statements for 1964) we report that in our opinion:

- 1) the consolidated net profits after taxes on income of the Company and its subsidiaries for 1964 were greater than \$35,000,000, and
- 2) the total of the consolidated net profits after taxes on income of the Company and its subsidiaries for 1963 and 1964 amounted in the aggregate to not less than \$69,000,000.

Toronto, Canada,  
February 12, 1965.

*Clarkson, Gordon & Co.*  
Chartered Accountants



## FIVE YEAR OPERATIONS SUMMARY

		1964	1963	1962	1961	1960
Net natural gas produced and sold ( <i>millions of cubic feet</i> )						
	Total	119,475	114,110	113,361	87,386	66,340
	Per day	326	313	311	239	181
Net crude and natural gas liquids produced ( <i>thousands of barrels</i> )						
	Total	31,211	29,930	29,408	25,732	23,098
	Per day	85	82	81	70	63
Crude oil processed by B-A and for B-A's account ( <i>thousands of barrels</i> )						
	Total	55,899	54,688	51,894	46,395	43,374
	Per day	153	150	142	127	119
Refined products sold ( <i>thousands of barrels</i> )						
	Total	59,245	54,568	52,430	45,349	43,265
	Per day	162	150	144	124	118
Petrochemical sales ( <i>thousands of pounds</i> )						
	Total	1,012,248	630,294	417,302	293,890	305,114
	Per day	2,766	1,727	1,143	805	834
Net wells capable of producing at year-end		2,272	2,236	2,177	1,892	1,785
Net wells drilled		180	195	217	217	184
Net acreage under lease reservation and option ( <i>thousands of acres</i> )		14,192	12,839	13,193	12,813	13,501

Notes:

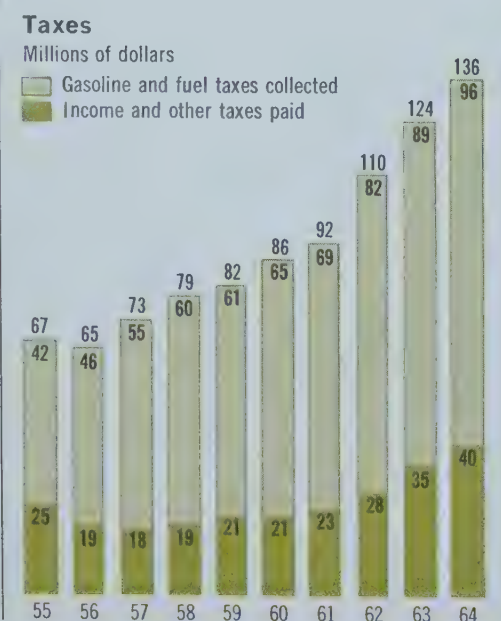
1963-64 petrochemical sales reflect the acquisition of Shawinigan Chemicals Limited.

1962-64 figures reflect the acquisition of Royalite Oil Company, Limited, Superior Propane Limited and Anglo American Exploration Ltd.



# TEN YEAR FINANCIAL SUMMARY

Totals, except for unit statistics expressed in millions of dollars



	1964	1963	1962
<b>EARNINGS</b>			
Gross operating revenues, dividends, special items, etc. . . . .	\$606.6	\$554.8	\$485.1
Deduct: Expenses, excluding depreciation, depletion, amortization and minority interest . . . . .	377.5	352.7	298.5
Taxes—Gasoline and other products . . . . .	95.7	88.3	81.7
—Income and general. . . . .	40.1	35.2	28.4
Net funds from operations. . . . .	93.3	78.6	76.5
Per common share. . . . .	\$ 4.28	\$ 3.60	\$ 3.51
Deduct:			
Depreciation, depletion and amortization . . . . .	46.5	41.9	38.7
Disposals of capital assets—book value . . . . .	4.9	2.2	2.6
Special items . . . . .	4.1	—	—
Minority share of earnings and special items . . . . .	1.1	.3	.6
Net earnings for the year before special items	\$ 36.7	\$ 34.2	\$ 34.6
Per common share. . . . .	\$ <del>1.68</del>	\$ 1.57	\$ 1.59
<b>BALANCE SHEET</b>			
Current assets . . . . .	\$213.8	\$200.9	\$176.7
Deduct: Current liabilities . . . . .	120.3	112.7	83.2
Working capital . . . . .	93.5	88.2	93.5
Properties, plants and equipment—net . . . . .	497.4	491.1	437.1
Investments, long term receivables and other assets . . . . .	48.8	48.5	61.8
	639.7	627.8	592.4
Deduct: Minority interests in subsidiaries . . . . .	25.1	25.8	8.2
Capital employed . . . . .	614.6	602.0	584.2
Deduct: Long term debt . . . . .	83.7	89.7	91.1
Shareholders' equity. . . . .	\$530.9	\$512.3	\$493.1
Per common share. . . . .	\$ 24.33	\$ 23.48	\$ 22.60
<b>CAPITAL AND EXPLORATION EXPENDITURES</b>			
Capital expenditures. . . . .	\$ 51.4	\$ 60.7	\$ 55.5
Exploration and dry hole costs charged to expense . . . . .	20.2	20.5	21.4
Total . . . . .	\$ 71.6	\$ 81.2	\$ 76.9
Employees—number at year-end. . . . .	10,554	10,364	8,201
Shareholders—number at year-end . . . . .	31,657	33,680	37,625
Shares outstanding—number at year-end (thousands) . . . . .	21,822	21,818	21,818



1961	1960	1959	1958	1957	1956	1955
\$410.3	\$400.5	\$391.8	\$380.2	\$365.2	\$324.8	\$312.1
245.4	243.9	246.9	246.3	224.3	205.6	192.9
69.8	64.3	60.9	59.5	55.1	45.7	42.2
22.5	21.4	21.1	19.2	17.9	18.9	25.1
72.6	70.9	62.9	55.2	67.9	54.6	51.9
\$ 3.54	\$ 3.48	\$ 3.08	\$ 2.71	\$ 3.69	\$ 2.97	\$ 5.71
37.5	35.7	34.4	31.8	32.7	25.7	20.1
2.4	4.3	2.8	2.8	2.9	3.7	10.3
.4	2.0	—	—	—	—	—
.1	.1	.1	.1	.1	.1	.1
\$ 32.2	\$ 28.8	\$ 25.6	\$ 20.5	\$ 32.2	\$ 25.1	\$ 21.4
\$ 1.57	\$ 1.41	\$ 1.25	\$ 1.00	\$ 1.74	\$ 1.36	\$ 2.35
\$ 12.1	\$ 12.1	\$ 12.1	\$ 10.6	\$ 10.1	\$ 9.4	\$ 7.6
\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ .85
\$139.0	\$140.0	\$139.2	\$166.1	\$131.9	\$112.9	\$ 97.4
65.3	51.8	50.1	50.6	53.2	56.3	36.2
73.7	88.2	89.1	115.5	78.7	56.6	61.2
379.0	371.1	353.5	319.8	273.0	242.9	155.7
45.0	28.8	30.2	25.8	21.6	23.4	10.2
497.7	488.1	472.8	461.1	373.3	322.9	227.1
1.0	1.0	.9	.8	7	.7	.6
496.7	487.1	471.9	460.3	372.6	322.2	226.5
40.0	51.3	54.7	56.8	58.6	30.7	41.6
\$456.7	\$435.8	\$417.2	\$403.5	\$314.0	\$291.5	\$184.9
\$ 22.31	\$ 21.30	\$ 20.39	\$ 19.73	\$ 17.02	\$ 15.82	\$20.32
\$ 47.9	\$ 57.8	\$ 71.0	\$ 81.5	\$ 94.9	\$ 59.4	\$ 36.7
17.7	18.4	20.1	22.4	24.0	17.0	6.1
\$ 65.6	\$ 76.2	\$ 91.1	\$103.9	\$118.9	\$ 76.4	\$ 42.8
7,210	7,305	7,450	7,660	8,064	7,397	5,765
38,235	38,308	34,967	34,975	31,206	31,587	26,939
20,475	20,459	20,459	20,455	18,448	18,432	9,100

## Capital employed

Millions of dollars



## Funds from operations

Millions of dollars



## Capital and exploration expenditures

Millions of dollars





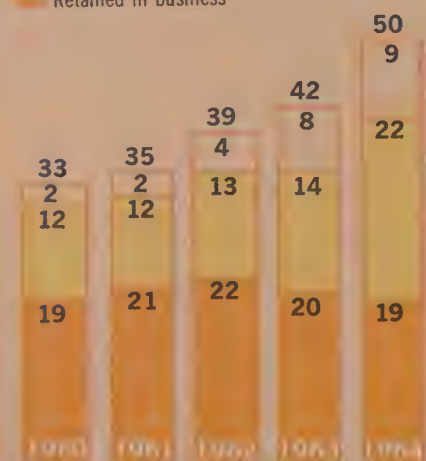


The new Rimbey pipe line terminal was opened at Edmonton, Alberta, during the year. Full automation of the terminal enables the system to carry butane, propane and other products without mixing. Volume moved through the line in 1964 increased by 72 per cent.

### Distribution of before-tax earnings including special items

Millions of dollars

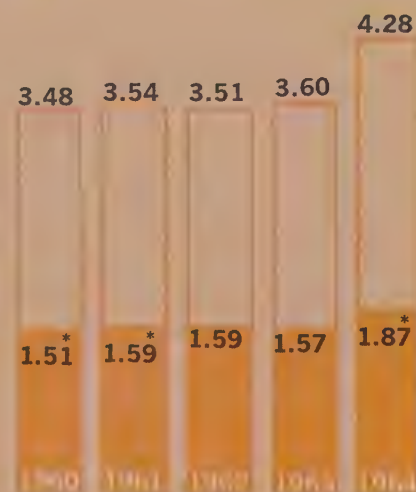
Income Taxes  
Dividends  
Retained in business



### Funds from operations

Dollars per share

Net earnings per share



\*Includes special items equivalent to the following:  
1964—19¢  
1961—2¢  
1960—10¢



# FINANCIAL REVIEW

**Table I** Comparative summary of earnings

	Millions of Dollars		*Per Share	
	1964	1963	1964	1963
Earnings for the year, before special items	\$36.7	\$34.2	\$1.68	\$1.57
Special items	4.1	—	.19	—
Total	\$40.8	\$34.2	\$1.87	\$1.57

\*Based on the number of common and restricted common shares outstanding at the end of each year.

**Table II** Source and application of funds

Millions of dollars	1964	1963
<b>Source of funds</b>		
Earnings for the year and special items	\$ 40.8	\$ 34.2
Add:		
Depreciation, depletion and amortization	46.5	41.9
Disposals of capital assets—book value	4.9	2.2
Minority share of earnings and special items	1.1	.3
Funds from operations	\$ 93.3	\$ 78.6
Issue of shares	.1	—
Working capital of acquired subsidiaries	.2	21.5
Total funds made available	\$ 93.6	\$100.1
<b>Application of funds</b>		
Capital expenditures	\$ 51.4	\$ 60.7
Dividends—to B-A shareholders	13.5	13.5
—to minority shareholders	.3	.3
—provision re restricted common shares	8.3	—
Reduction in long term debt	6.3	5.2
Purchase of shares of subsidiaries	7.9	27.8
Investments, advances, prepaid expenses	(.4)	(2.1)
Redemption of preferred shares of a subsidiary	1.0	—
Total funds applied	\$ 88.3	\$105.4
Working capital—increase (decrease)	\$ 5.3	\$ (5.3)

**Table III** Expenditures on properties, plants and equipment

	1964		1963	
	Millions	Per Cent	Millions	Per Cent
Production	\$27.6	53.7	\$33.8	55.7
Transportation	.2	.4	.2	.3
Refining	6.7	13.0	7.5	12.4
Petrochemicals	.9	1.8	3.4	5.6
Marketing	14.0	27.2	13.0	21.4
Other	2.0	3.9	2.8	4.6
	\$51.4	100.0	\$60.7	100.0

**Table IV** Analysis of investment in associated and other companies

Millions of dollars	December 31	
	1964	1963
Crude oil, gas and product pipe lines	\$ 9.5	\$10.5
Gas plants	.6	.6
Chemical manufacturers	1.4	1.9
Other related businesses	2.0	2.1
	\$13.5	\$15.1

Consolidated net earnings for 1964 were the highest in the Company's history. A comparative summary of earnings before and after including special items is shown in Table I. It will be noted that before including the special items, which were of a non-recurring nature, the 1964 earnings amounted to \$36.7 million. This exceeds the previous high of \$34.6 million recorded in 1962.

The improvement of \$2.5 million in earnings before special items was attributable mainly to higher profits from the production of oil and gas, and greater returns from Shawinigan Chemicals Limited and Royalite Oil Company, Limited. The former company reported a profit for 1964, compared with a loss in 1963.

Earnings for the year from refined products were at approximately the same level as 1963, with the last half of the year showing the effect of strong competitive conditions at the retail level. As is the case for the industry in general, B-A's earnings from this source fell far short of an adequate return on the heavy capital investment required. In a rapidly changing marketing environment, the Company is continuing its endeavors to improve the profitability of refining and marketing operations through increased emphasis on planning, with special attention given to anticipating changes in buying habits and customer requirements, and to effecting economies in the manufacture, distribution, and sale of its products.

The gains on disposal of investments and capital assets of \$4,977,000, which are included in the net total for special items shown in Table I, represent profits on the sale of part of the Company's equity investment in Trans-Canada Pipe Lines Limited, and on the disposal of certain U.S. crude oil gathering systems, which were of diminishing importance in B-A's producing operations.

Dividend limitations imposed upon the restricted common shares at the time of issue in 1956 no longer apply, as required earnings levels were achieved in 1964. The qualification of these shares for dividends is explained fully in note 6(a) to the financial statements. Following receipt of the report of the Company's auditors, a dividend aggregating \$8,335,648, representing \$1.00 per share, was declared on February 17, 1965, and paid on March 1, 1965. The rate of dividend was the same as the amount paid in 1964 on each common share. The restricted common shares also qualify for participation in the regular quarterly dividends of the Company, commencing with the dividend payable April 1, 1965.

During 1964 the Company increased its percentage ownership of Royalite Oil Company, Limited to 97.6 per cent by the purchase of an additional 69,039 common shares of that company under the cash offer of August 26, 1963, which expired on March 10, 1964. Consistent with the treatment applied to previous acquisitions, the purchase of the additional shares in 1964 was accounted for as a "pooling of interests." Accordingly, the cost of the shares acquired in 1964 in excess of their stated value, as recorded in the accounts of Royalite, has been charged to retained earnings, while the Company's interest in the Royalite retained earnings at January 1, 1964, applicable to these shares, has been credited to retained earnings, resulting in a net charge of \$495,000. The consolidated earnings for 1964 include 97.6 per cent of Royalite's earnings for the year.

Table II shows the source and application of funds for the years 1964 and 1963. A comparative breakdown of the capital expenditure figures shown on this statement is provided by Table III. These expenditures in 1964 at \$51.4 million were down \$9.3 million from 1963. Lower figures in the production and petrochemical categories were partly offset by an increase of \$1.0 million in expenditures on marketing assets.

Table IV provides an analysis of the Company's investment in shares and funded debt of associated and other companies. It will be noted that most of this investment is held in pipe line operating companies. The 1964 reduction reflects the sale of a part of the Company's equity investment in Trans-Canada Pipe Lines Limited, referred to previously.



## Exploration and Production

Net production of crude oil and natural gas liquids by British American and its affiliates in Canada and the United States during 1964 amounted to 85,277 barrels a day, compared with 81,999 barrels a day the previous year. Net natural gas produced and sold in both countries also increased, rising to 326 million cubic feet daily, compared with 313 million cubic feet daily in 1963.

### Canada

Net production of crude oil and natural gas liquids in Canada averaged 61,541 barrels per day in 1964, up from 56,506 barrels per day the previous year. Net natural gas produced and sold averaged 254 million cubic feet per day, compared with 248 million cubic feet per day in 1963.

The Company's net non-producing acreage inventory now stands at 12.6 million acres, an increase of 1.6 million acres over the previous year's figure.

The results of the 1964 exploration and development program, both from a new reserves and success ratio viewpoint, fell somewhat short of the unusually successful program in 1963. Additions to crude oil reserves, however, more than offset the high level of production maintained throughout the year.

In 1964 B-A and its partners drilled 69 gross exploratory wells, resulting in five oil and twelve gas discoveries. Of the twelve gas discoveries, it is expected that Pocketknife, in northern British Columbia, and Hesketh and Tawatinaw, in central Alberta, will contribute substantially to the reserves of the Company.

In its development program, British American participated in the drilling of 146 gross development wells, of which 98 were completed as oil wells, 24 as gas wells, and the remainder served to define economic producing areas. The main activity took place in the Beaverhill Lake formation of the Snipe Lake-Goose River area in north-central Alberta, where B-A made significant discoveries in 1963 and has an excellent land position.

Nine new gas plants either began operating in late 1964 or will be placed in operation by B-A and partners in the early part of 1965. Sales from these plants will more than offset any decline in gas deliveries under older contracts. The new facilities will enable B-A to participate to the full in the continuing strong demand for natural gas in Canada.

The Company continued its unitization and pressure maintenance programs and participated in the formation of ten new units. These operations, conforming with good conservation practices, will increase considerably the recovery of both oil and gas from the fields and formations involved, in addition to reducing the unit cost of production.

### United States

In the United States, crude oil and natural gas liquids produced in 1964 averaged 23,736 barrels daily, down from 25,493 barrels in 1963, due to a decline in some older fields. Natural gas produced and sold averaged 72 million cubic feet daily, an increase of seven million cubic feet over the previous year. The gain in natural gas sales was due to an increase in market demands, and negotiation of new contracts for shut-in production.

B-A drilled or participated in the drilling of 71 gross wells during the year. Of this total, 29 were exploratory wells, of which six were producers of either gas or oil. Of the 42 gross development wells drilled, 35 were completed as producers.

New discoveries included wells in Lea County, New Mexico, where a dual oil and gas completion was made; in the Copano Bay field in Aransas County, Texas, where completions of both gas and oil were made from a lease with ten separate underlying productive horizons; and in the Duvall area in Campbell County, Wyoming, where an oil completion was made. Development drilling is proceeding in each of these areas. In addition, development wells were drilled in Hinds County, Mississippi; Musselshell County, Montana; and Stephens County, Oklahoma.

*(Right) The B-A Goose River well in northern Alberta was one of 157 gross development wells completed successfully in 1964. (Extreme right) A crew member lays geophones in a British American seismic program in Saskatchewan.*

#### 1964 Well completion data

Gross Wells	Exploratory and wildcat				
	1964	1963	1962	1961	1960
Successful—oil	7	9	11	11	8
—gas	16	12	12	9	8
Dry Holes	75	85	88	100	87
Total	98	106	111	120	103
Net Wells					
Successful—oil	5	7	7	9	6
—gas	9	8	7	4	3
Dry Holes	56	57	66	75	63
Total	70	72	80	88	72
Gross Wells	Development				
	1964	1963	1962	1961	1960
Successful—oil	124	142	139	148	140
—gas	33	43	59	48	30
Dry Holes	31	44	58	34	27
Total	188	229	256	230	197
Net Wells					
Successful—oil	76	89	77	88	80
—gas	12	7	22	19	12
Dry Holes	22	27	38	22	20
Total	110	123	137	129	112





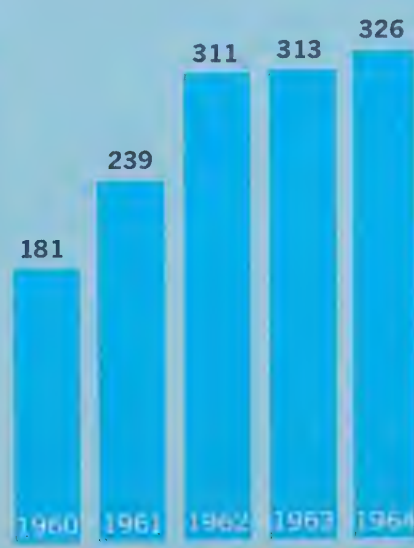
### Net crude and natural gas liquids produced

Thousands of barrels per day



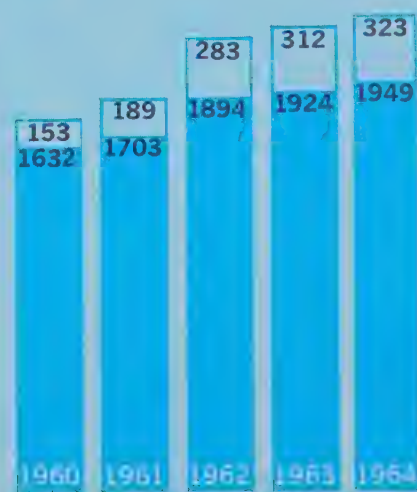
### Net natural gas produced and sold

Millions of cubic feet per day



### Net oil and gas wells capable of producing at year-end

Gas wells  
Oil wells









*(Top) Crude capacity to meet increasing product demands is presently being added at B-A's Montreal East refinery. A new 55,000 barrel-per-day combination crude topping and vacuum unit will replace one of the existing units. (Bottom) Originally opened in 1934, the Company's Moose Jaw, Saskatchewan, refinery marked its Thirtieth Anniversary with tributes to long service employees and the local business community. The refinery has tripled its initial capacity.*

Production from these three new areas was established during the latter part of the year. The full effect of these additions will be felt in 1965.

At year-end, important wildcat tests were underway to evaluate acreage blocks, either owned outright or in which B-A has a substantial interest, in St. Mary Parish, Louisiana; Terrell County, Texas; and Wayne County, Utah.

In continuing the policy of concentrating its efforts in selected areas, exploration field offices were consolidated and the number of district production offices was reduced. This reorganization has resulted in more efficient operations and a substantial saving in branch expense.

Because of the declining importance of the North and South Texas gathering pipe line systems in B-A's future production pattern, these systems were sold during the year. Their disposal resulted in a substantial capital gain, which was included as a special item of income in the 1964 operating results.

B-A's lease ownership at the end of 1964 totalled one million acres, located in 19 states and offshore areas. Of this total, over 900,000 acres were non-producing.

### Supply and Transportation

Canadian crude oil prices, with the exception of a six-cents-per-barrel average increase in British Columbia light crude oil, remained generally steady throughout 1964.

Selective purchasing of crude oil enabled B-A to maintain the 1963 laid-down unit cost level of domestic crude at its refineries. This was achieved in spite of a price increase for medium gravity Saskatchewan crude late in 1963.

Efforts to improve the efficiency of supply operations and planning continued. Supply arrangements of Royalite were integrated with those of British American; selective purchases of petroleum products were made, primarily on the East Coast, to balance product supply against market requirements.

The unit cost of moving a record volume of crude oil and products in 1964 was lower than in any preceding year. Evaluations are being made continuously to ensure that the most economical combination of tanker, pipe line, rail and truck facilities is used.

The trend to larger equipment was accelerated late in 1964 with the introduction of reduced railway rates in Western Canada applicable to jumbo-sized tank car movements. These new rates resulted in substantial transportation savings, the full effect of which will be realized in 1965 and subsequent years. The extension of a similar program into other areas is under study.

Crude oil and natural gas liquids moved in 1964 through pipe lines operated by the Company amounted to 41.2 million barrels. Petrochemical feedstocks and sulphur were moved in record volumes, with many shipments requiring maximum-sized, highly specialized equipment.

### Manufacturing

Total crude oil and condensate processed by B-A and for B-A's account in 1964 amounted to 55.9 million barrels, slightly higher than the previous year's figure.

Canadian crude and condensate used at the refineries was 72.2 per cent of the total, compared with 70.7 per cent the previous year. Montreal East refinery processed 15 million barrels of South American and Middle East crudes in 1964, compared with 15.3 million barrels in 1963. Some specialty South American asphalt crudes were used at Clarkson refinery because no suitable Canadian crudes were available for this purpose.

The overall rated crude capacity of 169,000 barrels per day was not increased during the year. To meet increasing product demands in Eastern Canada, however, and to replace obsolete equipment, construction is now in progress on a new 55,000 barrel-per-day combination crude topping and vacuum unit at Montreal East refinery. Completion of this unit early in 1966 will raise that refinery's crude capacity from 45,000 to 70,000 barrels per day.



At Edmonton refinery, a catalytic polymerization unit for converting fuel gas to gasoline began operating in June. The fuel gases were sold previously to an industrial plant.

In addition to producing sulphur for sale in Eastern Canada, a fuel gas treating and sulphur recovery plant, completed at Clarkson in May, made a major contribution to the anti-air pollution program of the Company in that area. Identification and elimination of potential sources of atmospheric and water pollution continued at all refineries.

Studies are constantly in progress to determine improved methods and techniques for using present facilities and available raw material to the best advantage. As examples, an air preheater installation on one of the process unit heaters at Clarkson has resulted in considerable fuel savings. At the same refinery, installation of incoming crude oil metering facilities now permit better utilization of storage facilities, and longer specific crude runs to the units with a consequent reduction in degradation of product.

On January 1, 1965, under the terms of agreements concluded in 1964 with the Royalite Oil Company, Limited and Anglo-Canadian Oils Limited, British American assumed operation of Royalite's refineries at Saskatoon, Saskatchewan, and Kamloops, British Columbia, and of Anglo's refinery at Brandon, Manitoba.

## Petrochemicals

In 1964 higher sales of petrochemicals manufactured by British American resulted in a considerable increase in earnings from this source.

Sales of sulphur showed a 68 per cent gain—313,000 long tons in 1964, compared with 186,000 tons in 1963. Of particular significance in the year's performance were the increased sales to overseas markets through Cansulex Limited. Toward the end of the year, the world-wide price of sulphur recovered to a marked degree, indicating an improved profit margin for future sales.

Total sales of other petrochemicals made by B-A and Shawinigan Chemicals amounted to 310 million pounds in 1964, compared with 213 million pounds in 1963, a 46 per cent gain. The operations of Shawinigan Chemicals are commented upon on page 25.

## Marketing

Total sales of petroleum products in 1964 rose to a record 59.2 million barrels, an increase of 8.6 per cent over 1963. All major product categories showed gains, with the largest increases in sales of heavy fuels and liquefied petroleum gases. Total sales were improved in all B-A marketing divisions.

St. Lawrence Fuel Co. Ltd., Three Rivers, Quebec, was purchased in May, 1964. In addition to an increased volume of business, this acquisition will provide terminal facilities for additional distribution in the area, and dock facilities for bunkering vessels in the St. Lawrence River, which will increase B-A's participation in world-wide distribution of marine bunker fuels.

Sales of tires, batteries, and accessories again made a significant contribution to earnings. A new B-A Courier line of tires, introduced early in the year, featured a wrap-around tread which gives better mileage, improved road control and appearance.

Financial counselling for the B-A dealer organization, initiated in 1962, was given concentrated attention during 1964. The principal aims of this service are to assist dealers in the management of their business, and to maintain a high standard of service to the motoring public.

Toward the close of the year, a realignment of responsibilities within the Marketing Department was made to improve the effectiveness of sales effort and to give increased emphasis to planning.

*(Top) British American continues as a major supplier of products to the farm market. (Bottom) New service stations were opened, older outlets revamped in key locations across Canada.*

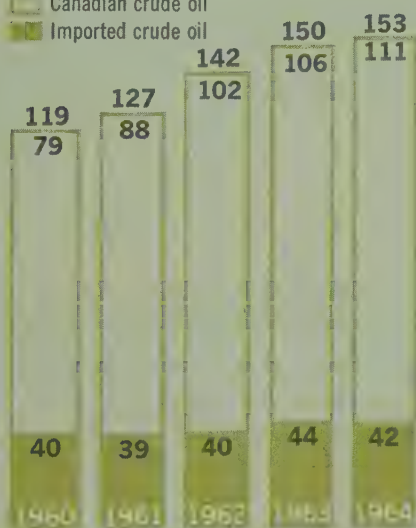




### Crude oil processed by B-A and for B-A's account

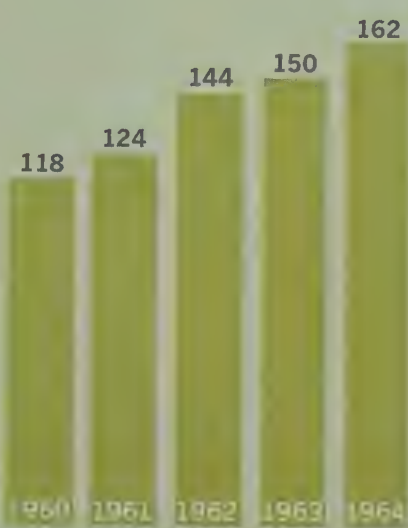
Thousands of barrels per day

Canadian crude oil  
 Imported crude oil



### Refined products sold

Thousands of barrels per day







*(Top) Marketing operations of Royalite, Anglo-Canadian and Purity 99 are now combined for more effective distribution of products and services. (Centre) One of five Shawinigan plants, the new Varennes, Quebec, complex produces petrochemicals for domestic and overseas markets. (Bottom) Superior Propane Limited is the largest retail distributor of propane in Ontario and Quebec.*





### **Royalite Oil Company, Limited**

Earnings for 1964 amounted to \$3,073,000, compared with \$2,653,000 in 1963, a gain of 16 per cent. A fully-integrated oil company, Royalite more than kept pace with the substantial growth recorded by the industry during the year.

Significant to Royalite's future operations were recent agreements between Royalite, Anglo-Canadian Oils Limited, Purity 99 Oil Ltd. and British American, which were aimed at a more effective utilization of the combined resources of manpower and facilities of the four companies.

Under these agreements, the marketing operations of Royalite, Purity 99 and Anglo-Canadian were pooled, effective January 1, 1965, by the formation of a strong independent marketing organization covering the whole of Western Canada. J. L. Valens, formerly President of Anglo-Canadian, has been appointed President of Royalite. The new organization will operate under the Royalite sign, with products supplied by B-A.

Royalite has contracted to B-A the management and operation of its oil and gas producing properties, pipe line facilities, gas plant and refineries. In addition, B-A has agreed to explore and evaluate Royalite's unproven properties, and has granted a participating interest in all unproven properties acquired by B-A in the future.

### **Shawinigan Chemicals Limited**

Shawinigan earnings for 1964 showed a marked improvement, recovering from the effects of a prolonged strike, which resulted in an operating loss for 1963. Production and sales of the company's extensive line of industrial chemicals were at a much higher level, with the regaining of many important customers.

In the highly competitive field of industrial chemicals, there is constant change, with new processes and new products challenging the old. Shawinigan Chemicals, long a respected name in this field, must be constantly alert to these changes and to the necessity for maximum efficiency. Its efforts towards increased profitability will be intensified. As a step in this direction, a new research and technical sales service centre will be built on the Island of Montreal. These facilities will play an important role in maintaining Shawinigan's leading position in the rapidly growing and diversifying Canadian chemical industry.

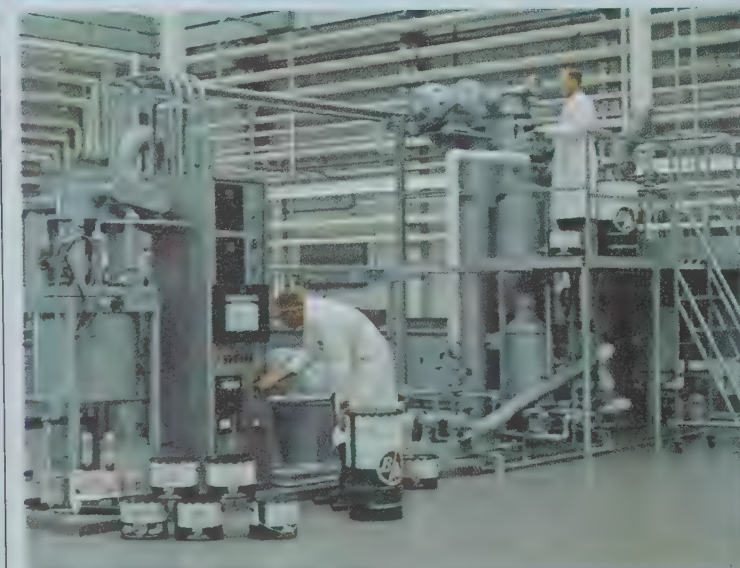
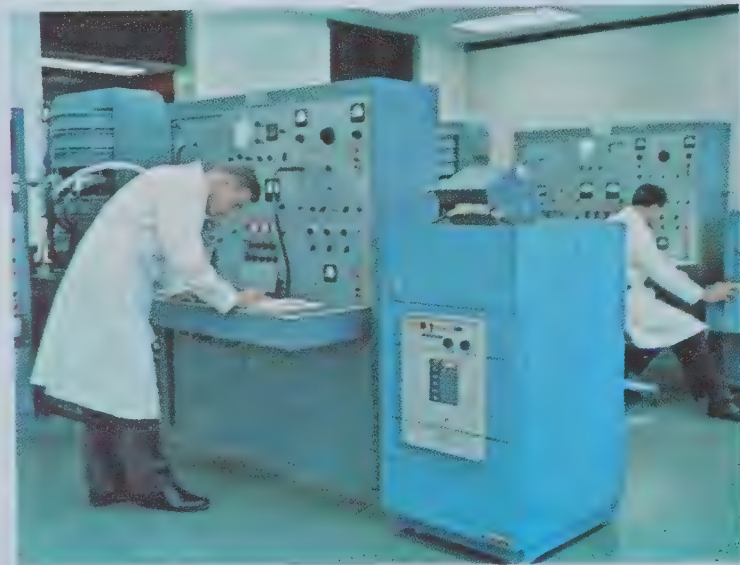
### **Superior Propane Limited**

The year was one of considerable expansion for Superior Propane Limited, which provides B-A's large propane production with an established market at the consumer level. Sales of propane gas and propane gas appliances were at an all-time high, with earnings commensurate with increased sales.

During the latter part of the year, Superior acquired the business assets of two propane marketers, Shorgas Limited, and Canadian Pargas Limited. The acquisition of these two companies, which operate a number of propane bulk plants in Eastern Canada, has extended considerably Superior's marketing area.

The availability of increased supplies of propane from Western Canada at competitive prices, and the development of new uses for this product, were factors in the substantial growth of propane markets during 1964.







## RESEARCH AND DEVELOPMENT

*(Top) The Research and Development Centre is located 20 miles west of Toronto on the Queen Elizabeth Way. From left, the Pilot Plant, the Engine Fuels and Lubricants Laboratory, and the main building housing the Analytical Research and Product Development Laboratories. Below, scientific and technical personnel at work. (Top left) readings are taken on one of the Centre's two mass spectrometers, the analytical instrument with which B-A first discovered helium in Canada; (top right) "wet chemical" methods are used to analyze various hydrocarbons and related substances; (bottom left) one of two small-scale grease making units; (bottom right) lubricating oil engine tests are made in this battery, the only one of its kind in Canada.*

The formation of the British American Research and Development Company as a new division of B-A, together with the opening in September of the new \$4 million Research and Development Centre at Sheridan Park, Ontario, underlined the importance that B-A continues to place on research.

An important objective in the creation of the Centre was to consolidate all B-A research personnel, thereby raising the efficiency of research workers. The Centre, with an atmosphere in which scientists are provided with creative opportunities in both pure and applied research, has already started to pay dividends to the operating departments of British American.

The Centre uses the latest scientific equipment and laboratory techniques to carry out its two main functions—Analytical Research and Product Development.

To probe the secrets of petroleum and associated materials, the Analytical group is divided into chemical and instrument sections. The chemical laboratory, in addition to wet chemistry techniques using conventional test tube and beaker apparatus, is equipped with the latest in electronic testing devices. The instrument analysis is conducted in five laboratories specializing in gas chromatography, micro-fractionation, emission spectrography, X-ray spectrometry and mass spectrometry—all advanced and complex methods of analyzing and tracing physical phenomena.

Product Development—the creation of new and improved fuels, oils and greases—is carried on in special laboratories, in the Pilot Plant, and in the Engine Fuels and Lubricant Laboratory. This laboratory, one of the largest of its kind in the country, contains the only equipment in Canada for testing "MS" motor oils designed for "most severe" service. It also has one of the three industrially-owned "Cetane" engines in Canada for rating diesel fuel performance.

The Centre's staff of 83 people includes 65 technical personnel selected from various parts of the B-A organization, plus a number of highly-trained researchers recruited from other jobs in industry, and from schools of higher learning across Canada and abroad.

Research projects are presently being carried out on heavy water, helium gas, sulphur and a score of petrochemicals. These projects, and the Centre's investigations into the complex world of the hydrocarbon molecule, not only generate a sense of excitement but also are making a definite contribution to B-A's operations. By the application of scientific methods to problem-solving, the Company confidently looks forward to improved earnings through the development of new knowledge; new products and processes; and through the optimization of process operations.





## Employee and Public Relations

British American met the industry wage pattern that developed in early 1964, and all bargaining agreements were signed for a one-year period.

Commencing with the tenth year of service, and every five years thereafter, B-A employees receive a pin recognizing their service. During 1964, 674 employees—ranging from one employee with 45 years of service to 270 people who completed ten years—received awards. At the end of the year, 3,010 employees, out of a total of 10,554, had served at least ten years with B-A.

During the year, 37 employees retired under the B-A Retirement Income Plan, 26 at normal retirement age, and eleven under the Plan's early retirement provisions.

Courses were completed by 225 employees under the Company's self-improvement program. Some 400 members of the Manufacturing Department are participating in a series of studies developed by the American Petroleum Institute. Costs are shared between employees and the Company.

Seven units of the Company received the President's Award for completing 365 days without a lost-time injury—one in Marketing, three in Manufacturing, and three in Production.

British American's public relations services throughout the year provided for the preparation and distribution of a wide range of information on the Company's activities to employees, dealers, shareholders, customers, industry, and the general public. A particular feature of the information program was the provision of material for student and school projects in answer to thousands of requests covering elementary, secondary, and advanced educational levels.

In addition to the Company's donations program in support of charitable, welfare, health and educational projects in all provinces, a program of undergraduate scholarships for the children of employees and fellowships open to any graduate of a Canadian university was introduced. This program will complement the Company's long-established aid to universities in meeting capital needs.

First awards of the scholarship-fellowship program, which is being administered by the Canadian Universities Foundation, will be made in 1965.



*A program of undergraduate scholarships for employees' children and fellowships for graduates of Canadian universities was introduced during 1964.*



## Products and Services

The Company meets the needs of the motorist, the home owner, the farmer, the industrialist and the armed forces with a full line of quality petroleum products and specialized services. The main classifications are listed below.

### GASOLINES AND FUELS

88 and 98 gasolines, Aviation gasolines, Aviation turbine fuels, Solar Heat, Diesel fuel oils, Tractor gasoline, Kerosene, Stove oil, Bunker fuel oils, Petroleum coke, Natural gas

### OILS

Motor oils, Aviation engine oils, Turbine oils, Automatic transmission fluid, Hydraulic oils, Cutting oils, Honing oils, Heat treatment oils, Process oils, Cylinder oils, General purpose oils, Dryer bearing oils, Black oils, Marine engine oils, Textile oils, Pneumatic tool oils, Gear oils, Non-drip oils, Outboard motor oil

### GREASES

Cup greases, Chassis lubricants, High temperature greases, Low temperature greases, Graphite greases, Extreme pressure greases, Ball and roller bearing greases, Multi-purpose greases, Wire rope lubricants, Gear shields, Track roll greases, Farm greases, Brick greases, Concrete form greases, Tool-joint greases

### SOLVENTS

Rubber solvents, Paint solvents, Dry cleaning solvents, Lacquer thinners, Wax polish diluents, Floor cleaners, Rubber dip-goods solvents, Petrobenzol, Naphthas

### ASPHALTS

Road oils, Paving asphalts, Industrial asphalts, Oxidized asphalts, Roofing asphalts

### SPECIALTIES

Propane, Butane, Slack waxes, Petrolatum

### PETROCHEMICALS

Benzene, Cumene, Cyclohexane, Sulphur, Toluene, and a wide range of industrial chemicals and plastics through Shawinigan Chemicals Limited

### TIRES, BATTERIES AND ACCESSORIES

A complete line of B-A Passenger and Truck Tires, B-A Automotive Batteries and Automotive Accessories



